

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4958-02
Bill No.: Perfected HCS for HB 1605
Subject: Tax Credits; Taxation and Revenue - Income, Revenue, Department
Type: Original
Date: April 20, 2016

Bill Summary: This proposal authorizes tax credits.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
General Revenue	(\$314,430 to Could exceed \$627,430)	(\$56,717,996 to Could exceed \$62,030,996)	(\$56,718,763 to Could exceed \$62,031,763)
Total Estimated Net Effect on General Revenue	(\$314,430 to Could exceed \$627,430)	(\$56,717,996 to Could exceed \$62,030,996)	(\$56,718,763 to Could exceed \$62,031,763)

***Income tax credits offset by payments from qualifying organizations starting in FY 2018.**

Note: The fiscal note does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the loss in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses. This fiscal note contains 13 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
General Revenue	1 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	1 FTE	1 FTE	1 FTE

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

§135.760 Earned Income Tax Credit Act

Officials from the **Department of Revenue (DOR)** assumed this proposal creates the Missouri Earned Income Tax Credit Act. Beginning January 1, 2016, qualifying individuals receive a non-refundable credit of 20 percent of the allowable federal earned income tax credit against taxes due under Chapter 143, RSMo.

In 2013, 470,374 Missouri taxpayers claimed federal earned income credits totaling \$1,120,745,775. Using these amounts and the total tax liability for those taxpayers, DOR determined that if each taxpayer receives a non-refundable credit equal to 20 percent of the federal credit, the total reduction in tax would be \$60.4 million in the first year the credit is authorized.

The proposal requires DOR to prepare an annual statistical report regarding the tax credits issued. The proposal also requires DOR to contract with one or more non-profit groups to provide notice of the credit to eligible taxpayers.

Oversight assumes DOR can accomplish the requirement to contract with one or more non-profit groups to provide notice without incurring costs.

Administrative Impact

DOR officials assume the Personal Tax section would require four (4) Temporary Tax Employees, (4) Revenue Processing Technicians I, and one (1) Management Analyst Specialist II.

DOR officials assume the Collections and Tax Assistance section would require two (2) Tax Collections Technicians I with both requiring CARES phone systems

The **DOR** estimate of administrative cost for this proposal including four additional temporary employees and seven additional full time employees with related benefits, equipment, and expense totaled \$360,595 for FY 2017, \$366,495 for FY 2018, and \$369,690 for FY 2019.

Oversight notes this proposal would implement a state tax EITC program based on and dependent on the federal EITC program. Oversight assumes this proposal would change a limited number of computations on individual income tax returns and assumes the proposal would not have a significant impact on the number of returns filed. Oversight also notes a high
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ASSUMPTION (continued)

percentage of income tax returns are prepared online, electronically, or by paid preparers, and assumes there would not be a significant number of additional errors resulting from the changes in this proposal.

Oversight therefore assumes existing DOR staffing would be adequate to implement this proposal. If unanticipated additional costs are incurred or if multiple proposals are implemented that increase DOR costs or the workload for DOR employees, resources could be requested through the budget process.

IT impact

DOR officials provided an estimate of the IT cost to implement this proposal of \$62,613 based on 835 hours of programming to make changes to DOR systems.

Oversight will include the DOR estimate of IT cost in this fiscal note.

Officials at the **Office of Administration's Division of Budget and Planning (B&P)** assume this proposal provides a non-refundable Earned Income Tax Credit to resident taxpayers in an amount equal to 20% of the federal EITC. This proposal also requires Department of Revenue (DOR) to prepare an annual report detailing statistics about the usage of this tax credit. Using tax year 2013 data, the most recent year available, B&P estimates that a non-refundable earned income tax credit will reduce Total State Revenue and General Revenue by \$60.4 million annually.

Officials at the **University of Missouri's Economic & Policy Analysis Research Center (EPARC)** assume they used the individual income tax for Missouri 2014 as the baseline year to determine a net tax due of \$5,563.753 million. If the earned income credit had been implemented at that time, it would have reduced the net tax due to \$5,507.116 million.

The increase seen in the General Tax Credits of \$224.056 million is the complete measure of 20% of Missouri filers' Federal Earned Income Credit. Many filers are able to reduce their tax burden to zero before using their entire credit. Because this credit does not allow the remainder to be refunded to the filer, our impact estimation is only concerned with reduction in Net Tax Due.

If enacted, this would reduce Net General Revenue by \$56.637 million.

Officials at the **Joint Committee on Administrative Rules** assume there is no fiscal impact from this proposal.

ASSUMPTION (continued)

Oversight for fiscal note purposes only, will use the estimate provided by EPARC

§143.1100 Bring Jobs Home Act (HA 2)

In response to similar legislation filed this year, HB 1617, officials from the **Office of Administration - Division of Budget and Planning (B&P)** assumed this proposal would create the Bring Jobs Home Act, which establishes a deduction against Missouri income taxes for eligible relocation expenses. B&P officials noted the program would have a deduction cap of \$5 million annually.

B&P officials multiplied the deduction cap of \$5 million by the top corporate tax rate; and estimated this proposal would reduce Total State Revenue by \$313,000 annually beginning in FY 17. B&P officials also assume the actual cost may vary in the future due to the impact of SB 509 (2014).

Oversight assumes for fiscal note purposes the B&P estimate of fiscal impact is the best available estimate. Oversight will indicate a range from \$0 (no relocated businesses) to \$313,000 (relocating businesses spend at least \$5 million in eligible costs) in this fiscal note.

In response to similar legislation filed this year, HB 1617, officials from the **Department of Economic Development - Division of Business and Community Services (DED)** assumed this proposal would create the Bring Jobs Home Act, which would allow a tax deduction for an eligible business for eligible expenses incurred in moving that business to Missouri. The program would have an annual cap of \$5 million.

DED officials measured the fiscal impact of revenue reduction in the amount of \$5,000,000 per year. DED has treated the deduction as a tax credit.

DED officials assume one additional employee would be required to administer the program. The additional employee would be an Economic Development Incentive Specialist III, who would be responsible for reviewing and approving applications for the program to determine eligibility, establishing procedures, reviewing the tax deductions applications to make sure they meet the criteria of the program, drafting and sending the awards, and ensuring compliance with the program.

The DED response included one additional employee and the related equipment and expenses. The total cost estimate was \$73,244 for FY 2017, \$80,996 for FY 2018, and \$81,763 for FY 2019.

ASSUMPTION (continued)

Oversight assumes the DED estimate of expense and equipment cost for the new FTE could be overstated. If DED is able to use existing desks, file cabinets, chairs, etc., the estimate for equipment could be reduced by roughly \$6,400.

In response to similar legislation filed this year, HB 1617, officials from the **Department of Revenue (DOR)** assumed that, beginning January 1, 2016, the legislation would allow a taxpayer a deduction for 50 percent of eligible expenses. The deduction amount could not exceed the taxpayer's Missouri adjusted gross income for that year.

The Department of Economic Development would verify that the number of full-time equivalents increases over the previous tax year. If the taxpayer eliminates the business within 10 years of receiving the deduction, the taxpayer would be required to repay the amount of the deduction. The legislation would allow deductions totaling up to \$5 million in a year. If the deduction claims exceed that amount, deductions would be allowed on a first-come, first-served basis.

Administrative Impact

DOR officials assume the Department would require forms changes and computer programming. In addition, Personal Tax would require two additional Revenue Processing Technicians I (Range 10, Step L) for error correction and correspondence, and Corporate Tax would require three additional Revenue Processing Technicians I (Range 10, Step L) for returns, error correction, and correspondence.

The DOR response included five additional employees; the estimated cost for the employees, benefits, equipment and expense totaled \$218,014 for FY 2017, \$227,482 for FY 2018, and \$229,337 for FY 2019.

Oversight notes this proposal would change a limited number of computations on individual and corporate income tax returns and would not be expected to have an impact on the number of returns filed. Oversight also notes a significantly high percentage of income tax returns are prepared online, electronically, or by paid preparers. Oversight assumes there would not be a significant number of additional errors resulting from the changes in this proposal; and therefore assumes existing DOR staffing would be adequate to implement this proposal. If unanticipated additional costs are incurred or if multiple proposals are implemented that increase DOR costs or the workload for DOR employees, resources could be requested through the budget process.

ASSUMPTION (continued)

§135.1910 School Foundation Tax Credit (HA 3)

In response to similar legislation filed this year, HB 1614, officials at the **Department of Revenue** assumed beginning January 1, 2017, the legislation allows a taxpayer a tax credit against their state tax liability for 50 percent of the amount donated to an organization that provides funding for unmet health, hunger, and hygiene needs for children in school. The provisions of this section prohibit any one taxpayer from claiming over \$50,000 per tax year. This legislation mandates the use of the taxpayer's contribution for unmet health, hunger, and children's hygiene needs.

The Department requires form and programming changes at a rate of \$75 per hour for a total of 504 hours for an approximate cost of \$37,827. The integrated tax system incurs additional costs of \$65,146 to implement the provisions of this legislation for a total of \$102,973.

Personal Tax requires one (1) Revenue Processing Technician I for every 6,000 credits claimed. Corporate Tax requires one (1) Revenue Processing Technician I for every 6,000 credits claimed. Collections & Tax Assistance requires two (2) Tax Collection Technicians I for every additional 15,000 contacts annually on the delinquent and non-delinquent tax line. Both technicians require CARES equipment and license.

Oversight notes that based on other pre-pay tax credits, redemptions have been minimal. Therefore, Oversight assumes DOR could implement the responsibilities in this proposal with current staff. Should DOR experience the number of additional tax credit redemptions to justify other FTE, they could seek that FTE through the appropriation process.

In response to similar legislation filed this year, HB 1614, officials at the **Department of Insurance, Financial Institutions, and Professional Registration (DIFP)** assumed an unknown reduction of premium tax revenues as a result of the creation of a tax credit for contributions to a qualified organization that provides funding for unmet health, hunger and hygiene needs for children in school is possible. Premium tax revenue is split 50/50 between General Revenue and County Foreign Insurance Fund except for domestic Stock Property and Casualty Companies who pay premium tax to the County Stock Fund. The County Foreign Insurance Fund is later distributed to school districts through out the state. County Stock Funds are later distributed to the school district and county treasurer of the county in which the principal office of the insurer is located. It is unknown how each of these funds may be impacted by tax credits each year.

ASSUMPTION (continued)

DIFP will require minimal contract computer programming to add these new tax credits to the premium tax database and can do so under existing appropriation. However, should multiple bills pass that would require additional updates to the premium tax database, the department may need to request more expense and equipment appropriation through the budget process.

In response to similar legislation filed this year, HB 1614, officials at the **Office of Administration's Division of Budget and Planning (BAP)** assumed this proposal would create a tax credit for individuals or certain companies that make contributions to organizations that provide funding for unmet health, hunger, and hygiene needs for children in school, beginning January 1, 2017. Taxpayers can claim a tax credit for an amount equal to 50% of their contribution, but will not exceed \$50,000 per taxable year.

The qualified organizations are required to remit payment for these credits; therefore this proposal has no direct impact on General and Total State Revenues. However, if the contribution is to a qualifying charitable organization there may be indirect costs of up to 6 percent of the value of the contribution, depending on the deductibility of the contribution and the state income tax rate in effect.

In response to similar legislation filed this year, HB 1614, officials at the **Department of Social Services** assumed no fiscal impact from this proposal to their organization.

Oversight assumes that §135.1910.6 requires payment from the provider equal to the amount of the value of the tax credit. Oversight assumes that receipt of payment and the application of the tax credits could affect various state funds, however, there is no cap on this credit. For the purpose of this note, Oversight will show all the payments and costs to General Revenue.

§135.1160 Rental Property Tax Credit (HA 4)

Oversight notes this proposal allows a taxpayer a tax credit for eligible costs incurred in the renovating of rental property. Each taxpayer is limited to \$2,500 in tax credits per property. This tax credit has an annual cap of \$5,000,000 annually. Oversight will show the \$5 million impact to General Revenue starting in FY 2018.

Oversight assumes that DOR will be able to handle the processing of the tax credit forms with existing resources. However, Oversight assumes that DOR will have one-time computer programming costs. Oversight will show the computer programming costs as could exceed those previously listed.

<u>FISCAL IMPACT - State Government</u>	FY 2017 (10 Mo.)	FY 2018	FY 2019
GENERAL REVENUE FUND			
<u>Revenue</u> - payment for the tax credit filed with the application §135.1910 (HA3)		\$0 to Could \$0 Exceed \$100,000	\$0 to Could Exceed \$100,000
<u>Cost</u> - DOR- computer programming §135.760	(\$62,613)	\$0	\$0
<u>Revenue Reduction</u> Earned income tax credit §135.760	\$0	(\$56,637,000)	(\$56,637,000)
<u>Cost</u> - DED - Business relocation tax credits §143.1100 (HA2)			
Salaries	(\$43,410)	(\$52,613)	(\$53,139)
Benefits	(\$20,270)	(\$24,466)	(\$24,610)
Equipment and expense	(\$9,564)	(\$3,917)	(\$4,014)
<u>Total Cost</u> - DED	(\$73,244)	(\$80,996)	(\$81,763)
FTE change - DED	1 FTE	1 FTE	1 FTE
<u>Cost</u> - DOR - Computer upgrades §143.1100 (HA2)	(\$75,600)	\$0	\$0
<u>Revenue Reduction</u> - DOR - Business relocation tax credits §143.1100 (HA2)	\$0 to (\$313,000)	\$0 to (\$313,000)	\$0 to (\$313,000)
<u>Revenue Reduction</u> - rental property tax credit §135.1160 (HA4)	\$0	(Up to \$5,000,000)	(Up to \$5,000,000)
<u>Cost</u> - DOR - creation of tax credit in §135.1910 (HA3)	\$0	\$0 to (Could Exceed \$100,000)	\$0 to (Could Exceed \$100,000)
<u>Cost</u> - DOR - computer programming §135.1910 & §135.1160 (HA3)	(Could exceed \$102,973)	\$0	\$0
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$314,430 to Could exceed \$627,430)</u>	<u>(\$56,717,996 to Could exceed \$62,030,996)</u>	<u>(\$56,718,763 to Could exceed \$62,031,763)</u>

<u>FISCAL IMPACT - State Government</u> (continued)	<u>FY 2017</u> (10 Mo.)	<u>FY 2018</u>	<u>FY 2019</u>
Estimated Net FTE Change on General Revenue	1 FTE	1 FTE	1 FTE

Note: The fiscal note does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the loss in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.

<u>FISCAL IMPACT - Local Government</u>	<u>FY 2017</u> (10 Mo.)	<u>FY 2018</u>	<u>FY 2019</u>
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

This proposal would allow a qualified small businesses to claim a tax deduction for 50 percent of eligible expenses of relocating that business to Missouri. (§143.1100)

This proposal would allow small businesses that apply for the tax credits could be positively impacted.

FISCAL DESCRIPTION

This proposal establishes the Missouri Earned Income Tax Credit Act which authorizes, beginning January 1, 2017, an individual income tax credit of an amount equal to 20% of the federal earned income tax credit. (§135.760)

The proposed legislation would create the Bring Jobs Home Act, which would authorize a tax deduction against income tax, other than employee withholding tax, for up to 50% of eligible expenses associated with closing a business located outside of the state and reopening that business in Missouri. The closing could occur in a year other than the year of the relocation.

Eligible expenses must be paid or incurred under a written plan. The maximum amount of tax deductions allowed under this program could not exceed \$5 million per year, and deductions would be allowed on a first come first served filing basis.

FISCAL DESCRIPTION (continued)

To be eligible for the tax deduction, the number of full-time employees in Missouri for the year the deduction is claimed must exceed the number of full-time employees for the year preceding the year in which the eligible expenses were paid or incurred. Eligible expenses must be taken into account during the tax year the plan was completed and all eligible expenses have been paid or incurred or, if the taxpayer chooses, the first tax year after the tax year the expenses have been paid or incurred. A deduction would not be allowed for expenses incurred when dissolving a business in Missouri and relocating it to another state.

If a taxpayer is allowed a deduction under this program and within 10 years of receiving the deduction eliminates the business unit for which the deduction was allowed, the taxpayer would be required to repay the state an amount equal to the amount of the tax savings realized from the deduction. (§143.1100)

The provisions of the bill would expire six years after their effective date.

For all tax years beginning on or after January 1, 2017, a taxpayer must be allowed to claim a tax credit against the taxpayer's state tax liability in an amount equal to 50% of the taxpayer's contribution to a qualified organization that provides funding for unmet health, hunger, and hygiene needs for children in school. The amount of the tax credit claimed must not exceed the amount of the taxpayer's state tax liability for the taxable year that the credit is claimed, and the taxpayer is not allowed to claim a tax credit in excess of \$50,000 per taxable year. Any tax credit that cannot be claimed in the taxable year that the contribution was made may be carried over to the next four succeeding taxable years until the full credit has been claimed. A taxpayer's minimum contribution or contributions to a qualified organization or organizations must be \$100, except for any excess credit that is being carried over.

The Director of the Department of Social Services must determine, at least annually, which organizations in the state may be classified as qualified organizations and may require the organization seeking the classification to provide any information that is reasonably necessary to make the determination.

The director must establish a procedure, as specified in the bill, by which the cumulative amount of tax credits are equally apportioned among all organizations classified as qualified organizations. If a qualified organization fails to use all, or some percentage to be determined by the director, of its apportioned tax credits during the predetermined period of time, the director may reapportion these unused tax credits to those qualified organizations that have used all, or some percentage to be determined by the director, of their apportioned tax credits during this predetermined period of time. The director must provide the information to the Director of the Department of Revenue. The director must be subject to the confidentiality and penalty FISCAL

DESCRIPTION (continued)

provisions of Section 32.057, RSMo, relating to the disclosure of tax information.

These provisions must not limit or in any way impair the department's ability to issue tax credits authorized on or before the date the program expires or a taxpayer's ability to redeem the tax credits. The provisions of the bill will expire on December 31, 2022. (§135.1910)

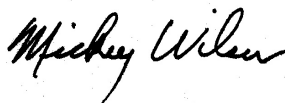
Beginning January 1, 2016, this bill authorizes an income tax credit for certain specified costs incurred in the renovation of a taxpayer's rented dwelling or residence. The building must be a multi-family dwelling with at least two units, one of which must be occupied by the taxpayer. The credit will be equal to 20% of the renovation's costs, up to \$2,500 per taxpayer. The tax credit will be issued on a first-come, first-served basis and is not refundable or transferable but can be carried forward for three years. No more than \$5 million of these tax credits can be issued in any fiscal year. (§135.1160)

The provisions of the bill will expire December 31 six years after the effective date.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Insurance, Financial Institutions and Professional Registration
Department of Revenue
Department of Social Services
Office of Administration-
 Division of Budget and Planning
University of Missouri
 Economic & Policy Analysis Research Center
Office of the Secretary of State
Joint Committee on Administrative Rules



Mickey Wilson, CPA
Director

Ross Strobe
Assistant Director

L.R. No. 4958-02
Bill No. Perfected HCS for HB 1605
Page 13 of 13
April 20, 2016

April 20, 2016

April 20, 2016